

MORGAN HILL REDEVELOPMENT AGENCY IMPLEMENTATION PLAN

January 1, 2010- December 31, 2014

**Morgan Hill Redevelopment Agency
Department of Business Assistance and Housing Services Department
January 2010
DRAFT**

**MORGAN HILL REDEVELOPMENT AGENCY
IMPLEMENTATION PLAN
January 1, 2010- December 31, 2014**

I. BACKGROUND

California Community Redevelopment Law requires redevelopment agencies to prepare and adopt five year Implementation Plans in order to ensure a higher level of public accountability. Implementation Plans must be adopted after a noticed public hearing, and must be reviewed and updated when they expire. California Community Redevelopment Law ("CCRL") specifically requires that Implementation Plans contain the following information:

- A description of an agency's goals and objectives for the redevelopment Project Area;
- A list and description of proposed programs, including potential projects, and estimated expenditures therefore, for the next five years;
- A description of the link between an agency's goals and objectives, programs and expenditures, and the elimination of blight within the Project Area, and
- A description of how a redevelopment agency will increase, preserve and/or improve the supply of affordable housing, and how it will meet its inclusionary and replacement housing requirements.

II. INTRODUCTION

On June 3, 1981, the Morgan Hill Redevelopment Agency (the "Agency") adopted the Community Development Plan of the Ojo De Agua Community Development Project (the "Redevelopment Plan"). Along with the Redevelopment Plan, the City Council approved the Report to the City Council on the Ojo De Agua Community Development Plan. This report substantiated the need for redevelopment in the community e.g., "to eliminate and reduce many aspects of visual, economic, physical and social blight" within the Redevelopment Project Area (the "Project Area").

The Agency prepared its first Implementation Plan in November 1994 (the "Plan"). The Plan was amended in October 1996. In November 1997, the Agency prepared a mid-term report to review the Agency's accomplishments during the first three years of the Plan. A second Implementation Plan was approved in December 1999. A mid-term review of that plan was prepared in December 2002.

In March 1999, the Agency adopted a Report to the City Council which supported amending the original 1981 Ojo de Agua Redevelopment Plan. The report concluded that there is still a

need for redevelopment in Morgan Hill. In April 1999, the Agency amended its Redevelopment Plan to:

1. Raise the cap as to the amount of tax increment which can be collected by the Agency within the Project Area from \$100,000,000 to \$247,000,000, net of the required payment to affected taxing entities;
2. Modify the projects list included in the original Redevelopment Plan; and
3. Extend various time limits related to establishing and paying indebtedness, and receiving property taxes.

In November 2006, the Agency amended its Redevelopment Plan to continue its efforts in the Project Area by:

1. Repealing the debt incurrence limit;
2. Extending the tax increment receipt and Plan effectiveness dates to 2034 and 2024, respectively;
3. Re-establishing and increasing the bond limit;
4. Increasing the tax increment limit from \$247,000,000 to \$580,000,000 net of the required payment to affected taxing agencies;
5. Deleting area from the Project Area; and
6. Not reauthorizing the power of eminent domain.

The Agency's third Implementation Plan, which covers the period from January 2005 through the end of December 2009, was amended to reflect the 2006 Redevelopment Plan Amendment. The 5 Year Implementation Plan was also updated in June of 2007 and amended and restated in December 2007 to also include the Mid-Term Review.

This Five Year Implementation Plan encompasses the new five year period from January 1, 2010 through December 31, 2014 timeframe.

All proposed expenditures discussed in relation to specific projects or programs or implementation methods are intended to take full advantage of programs and funding allowed or made available by law, or through federal, state or local assistance. The Agency will adapt its programs and specific implementation projects and methods based upon economic conditions during the life of this Implementation Plan and the financial resources available to the Agency at any given time. Projects and programs are identified with budget estimates to support the Agency efforts within the Implementation Plan timeframe.

CCRL requires the Plan to address a variety of topics. The Plan is divided in sections to

address the following required topics:

- Description of Existing Blighting Conditions Within the Project Area
- Non-Housing Accomplishments (2005-2009);
- Goal and Objectives for the Project Area (2010-2014);
- Proposed Non-Housing Programs, Projects and Expenditures (2010-2014);
- Available Funding for Non-Housing Projects and Programs (2010-2014);
- How the Goals and Objectives, Non-Housing Programs, Projects and Expenditures will eliminate Blight in the Project Area;
- Affordable Housing Requirements;
- Housing Production Accomplishments and Projections;
- Housing Set-Aside Accomplishments and Projections;
- How the Affordable Housing Goals and Objectives, Programs, Projects and Expenditures will Eliminate Blight in the Project Area;
- Project Area Housing Beyond 2014;
- Plans for Using Annual Deposits to the Housing Set-Aside Fund;
- Proposed Locations for the Replacement Housing the Agency will be required to Produce; and
- Compliance with the City's General Plan.

III.DESCRPTION OF EXISTING BLIGHTING CONDITIONS WITHIN THE PROJECT AREA

The original Report to the City Council on the original Redevelopment Plan substantiated the existence of blighting conditions in the Project Area. Despite substantial accomplishments in the Project Area since 1981, not all of the objectives of the original Plan have been met and blight still exists throughout the Project Area. The continued existence of blight in the Project Area is documented in the March 1999 and November 2006 Reports to the City Council prepared for the 1999 and 2006 amendments to the Community Development Plan for the Ojo De Agua Community Development Project, which are incorporated herein by reference and available for review in the Department of Business Assistance and Housing Services.

IV. NON-HOUSING ACCOMPLISHMENTS (January 2005- December 2009)

The following is a list of the projects and programs funded, in whole or in part, by the Agency over the five years of the Implementation period (reporting period). If a project was started, but not completed during the reporting period, only cost for the period was included in the "Total Cost:" for that project. It should be also noted that the total cost for the project represents the Agency's share of the project cost and may not reflect other funding sources spent or committed to the project. Furthermore, it should be noted that since the reporting period splits the 2004-05 fiscal year, some expenditure estimates may include costs incurred in portions of FY04-05 outside of the reporting period (e.g., July-December 2004).

A. Community Facilities

1. Centennial Recreation Center (CRC): Completed construction of the Center on an 8 acre site. The 52,000 square foot (SF) multi-generational facility includes a gymnasium, natatorium, fitness room, aerobics room, locker room facilities, senior center, youth center, and multi-purpose room with a full commercial kitchen. In 2009, the Agency started construction of a 1,984 SF addition to the Fitness Center at the Centennial Recreation Center. This addition increases the Fitness Center to a total of 4,985 SF. The addition expanded the aerobic and strength training area as well as adding a warm-up/ stretching space. The addition is estimated to open May 1, 2010. Total cost: \$ 21,260,000
2. Friendly Inn Renovation: Completed demolition of the old senior center and renovation of the remaining 7,300 SF Friendly Inn to provide low-cost space for nonprofit social service agencies serving Morgan Hill residents. Total cost: \$1,905,000
3. New Morgan Hill Public Library: Completed construction of the Library at the Civic Center site. The 28,000 SF facility includes flex-service space, library stack areas, children's reading area, teen reading area, office area, and multi purpose room. Total cost: \$13,991,000
4. Outdoor Sports Center: Completed improvements to the Sports Center by converting two existing grass fields into synthetic turf fields with sports lighting and related work. The large field is a standard NCAA football size while the soccer field meets the CYSA/AYSA regulations. Both fields are considered multi-use. Related work consisted of improving the existing parking lot and off-site improvements including street widening, utility under-grounding, shaded permanent bleachers, and concessions / restroom building. Enhancements such as added data/fiber connections, added electrical and public address conduit, and concession stand upgrades were added after the OSC construction was completed. Total cost: \$6,870,000
5. Aquatics Center: Completed renovation of the concrete deck and installation of ultraviolet water treatment system for the spray ground. Started conversion of turf to drought resistance landscaping. The Agency also continues to pay the ground lease for

the property. Expenses reflect final payments for construction of the facility. Total cost: \$1,700,000

6. Community and Cultural Center (CCC): Completed the exterior interactive fountain renovations consisting of the installation of an ultraviolet water treatment system. Also, started: 1) the replacement of the wooden exterior doors with metal doors throughout the CCC and Gavilan College and 2) modification of the marquee sign to include an electronic reader board. Total cost: \$65,000
7. Development Services Center (DSC): The City completed construction of a new facility for one-stop permitting in the old library building. The concept is to provide a more development friendly experience for persons or businesses needing to obtain permits from the City. The DSC is an integral part of the effort to encourage private investment in the Project Area by streamlining the permit process. The Agency has its operations in this building and paid its share for the furniture, fixtures, and equipment in the DSC. Total cost: \$290,000
8. Skateboard Park: Constructed a 15,000 SF in-ground concrete skateboard park at the CRC. Total cost: \$595,000

B. Public Infrastructure Improvement Projects

1. Pavement and Sidewalk Program: Replaced and upgraded existing street (e.g., Butterfield Boulevard) and sidewalk segments including ADA ramps at various locations within the Project Area. Total cost: \$75,000.
2. Downtown Parking Improvements : Acquired property and constructed surface parking lots to expand the supply of off-street public parking in downtown by 146 spaces. Specifically, the Agency: 1) constructed the Depot St. lot (92 spaces), 3rd and Monterey Rd. lot (26 spaces), West 3rd St. lot (8 spaces), and 1st and Monterey Rd lot (20 spaces), 2) extended its lease to preserve one parking lot, and 3) expanded the Depot Street Train Station parking lot by 10 spaces. Total cost: \$2,706,000
3. Third Street Promenade: Substantially completed construction of the Third Street Promenade project on Third St. between Depot St. and Monterey Road as a pedestrian friendly street/outdoor plaza in downtown. The project also received a matching grant from the MTC for construction. Total cost : \$3,129,000
4. Third Street Utility Improvements: Completed the construction of new water, sewer, and storm drain on 3rd Street between Depot St. and Monterey to accommodate the Third Street Promenade Project. The Agency also undergrounded the utilities on 3rd Street. Total cost: \$670,000.
5. Downtown Street Revitalization Improvements: Completed the full reconstruction of Depot Street between Main Avenue and Fifth Street including sewer replacement, utility undergrounding, and landscaping improvements. The Agency also installed

some traffic calming measures and increased lighting at specific locations in downtown. Total cost during this reporting period: \$953,000. The Agency funds only represent a portion of the total costs as the Agency received a matching grant from Metropolitan Transportation Commission (MTC) for the Depot Street improvements.

6. Sewer Improvements: Installed a sewer line at Butterfield and San Pedro to provide for increased wastewater capacity in accordance with City's sewer master plan. Total cost during this reporting period: \$360,000
7. Courthouse Plaza improvements: Completed the construction of a plaza connecting the Morgan Hill Courthouse to the pedestrian railroad crossing and downtown. Total cost: \$394,000
8. Pavement Reconstruction Program: Replaced and/or upgraded existing street surfaces at various locations such as portions of Peak Ave., Cochrane Rd., Monterey Rd., and Diana Avenue. Total cost: \$2,600,000
9. Butterfield Boulevard Extension: Began design of the extension of Butterfield Blvd. from Tennant Avenue to Watsonville and Monterey Road intersection. The Agency also incurred some acquisition costs of the needed right of way. Total cost: \$2,415,000
10. Tennant Avenue Widening: Completed the widening of Tennant Avenue from two to four lanes from Vineyard Boulevard to Monterey Road. Total cost: \$1,132,000
11. Santa Teresa Road Improvements: Started design of Santa Teresa from Main Ave. to Spring St. including the installation of sidewalk, curb, gutter and streetlights. The Agency also acquired some right-of-way. Total cost: \$1,612,000
12. West Dunne Avenue Widening Improvements: Started design of the widening of West Dunne Ave. from Monterey Road to Santa Teresa including the installation of sidewalk, curb, gutter and streetlights. The Agency also incurred some acquisition costs related to right-of-way. Total cost: \$710,000
13. Undergrounding Monterey Rd. Utilities: Created the undergrounding district needed to access PG&E's Rule 20A funds for undergrounding utilities along Monterey Rd. from Dunne Ave. to Tennant Ave. Total cost during this Plan period: \$22,000
14. Highway 101/Tennant Ave. Interchange: Completed the design and awarded a bid to construct the Tennant Ave./Hwy 101 overpass widening and construction of a loop ramp for northbound Hwy 101. Total cost: \$1,339,000
15. Sewer Plant Improvements: The Agency committed \$14,000,000 to fund the Project Area's share of the expansion of the sewer treatment plant to accommodate and stimulate future commercial and residential development in the Project Area. Total cost: \$14,000,000

16. Citywide directional signs: The Agency designed and installed directional signs citywide as well as business directory kiosks in the downtown, to direct visitors to community facilities, downtown, and other points of interest in the Project Area. Total cost: \$256,000
17. Flood Control projects: The Agency expended funds for technical studies needed for the environmental work for flood control improvements to mitigate flooding in the Project Area. Total cost: \$129,000

C. Economic Revitalization Projects and Programs

From January 2005 to December 2009, the Agency spent or committed about \$30,464,000 for the activities listed below including the assembly of parcels for projects in downtown and various economic development activities¹.

1. General Economic Revitalization Programs: These are programs and activities to increase private investments, create jobs, and increase tax revenue in the Project Area.
 - a) Worked with regional, state, and local economic development agencies to foster and promote economic revitalization such as Joint Venture Silicon Valley Economic Development Alliance and Central Coast Marketing Team.
 - b) Assist the Sister Cities Committee with its activities.
 - c) Promoted Morgan Hill through the preparation of marketing materials, advertisements, press releases, participation in trade shows, and contract with the Morgan Hill Chamber of Commerce's Economic Development Partnership (EDP) to provide supplemental economic development services.
 - d) Continued to promote and implement the Sewer/Traffic Fee Deferral Program, the Small Business Fee Deferral Program and the Utility Under-grounding Fee Deferral Program for businesses locating in the Project Area.
 - e) Provided business assistance including general information, site selection assistance, development processing assistance, and ombudsman services to businesses, brokers, and developers to encourage development in the Project Area.
 - f) Prepared a list of Economic Development Inhibitors and adopted actions to mitigate the inhibitors such as paying for traffic and sewer improvements to facilitate private investment in the Project Area.
 - g) Engaged outside consultant to prepare study of Best Practices in Economic

¹ To estimate costs for the period January to June 2005, the Implementation Plan uses 50% of the actual expenses in FY04-05. For FY09-10, the Plan uses 50% of the budgeted amounts for the July- December 2009 reporting period.

- Development and adopted key recommendations that included additional assistance to small business, participation in business forums for targeted industries or commercial areas, and monitoring of customer service related to the permitting process.
- h) Implemented new business assistance program for Special Tenant Improvements and Capital Equipment Purchase that offers low interest loans to targeted industries that locate in the Project Area.
 - i) Developed and adopted a Shopping Center Strategy with information gained from outreach to existing centers. Provided assistance in the areas of signage, access, and expansion of the Commercial Rehab Loan Program to include all shopping centers in the Project Area.
 - j) Provided ombudsman services to encourage commercial/industrial businesses to locate, expand, or remain in the Project Area. Businesses assisted include Mission Bell Manufacturing, Pinnacle Manufacturing, and M & L Precision Machining. In addition, staff responded to numerous inquiries for site or demographic information in the Project Area.
 - k) Implemented a Special Supplemental Police Services Program in the Project Area. This program is aimed at eliminating particular criminal activities by adding two police officers and support staff to focus on crime suppression and gang activities in the Project Area. This program is an effort by the Agency to stimulate new private development and help preserve existing development in the Project Area by eliminating physical blighting influences in the Project Area related to criminal activities.
2. Encourage and facilitate retail development: These are programs and activities to attract desired retailers to invest in the Project Area.
- a) Provided ombudsman services to retail businesses that located or expanded in the Project Area such as Happi House, El Toro Brew Pub/Restaurant, Wal-Mart, Ross, Fuzia, Rigatoni, Ross, EcoSparc, and Le Baby Spa.
 - b) Continue to work to encourage the development of retail sites in the Project Area.
 - c) Monitored the development agreements with Johnson Lumber
3. Promote small business development, expansion, and retention: These programs bring new small businesses into the Project Area and help existing small businesses expand.
- a) Entered into a fee deferral agreement with the Kiddie Academy and Cochrane Animal Hospital

- b) Entered into a utility undergrounding fee financing agreement with Advent Lutheran Church.
 - c) Provided Commercial Rehabilitation Loan with the owners of BookSmart.
 - d) Created a “Tools for Small Business Success” section to the City/Agency website containing information to help people start or improve their small businesses. Small businesses are primarily located within the Project Area.
 - e) Provided 26 Façade Improvement grants for such businesses/properties as the Skeel’s Building, Morgan Hill Times Building, Fuzia Restaurant, Sinaloa Restaurant, and the Budget Inn. Grants committed total about \$800,000.
4. Foster attraction of service commercial and light industrial uses: These are programs and activities to attract service commercial and light industrial uses to the Project Area.
- a) Provided ombudsman services to encourage commercial/industrial businesses to locate, expand, or remain in the Project Area. In addition, staff responded to numerous inquiries for site or demographic information in the Project Area.
 - b) In conjunction with the Chamber of Commerce, staff began implementing the business retention initiative by conducting site visits of companies in the Project Area to learn about their future plans.
 - c) The Agency committed about \$60,000,000 towards traffic and sewer improvements to reduce impact fees in the Project Area in an effort to facilitate private investment in the Project Area.
5. Enhance and improve the Downtown: Undertake projects and develop programs to enhance and improve the Downtown, including:
- a) Implemented communications and marketing activities designed to increase awareness that merchants located on 3rd Street were open and accessible during construction of Third Street Promenade. Activities included weekly construction updates on Agency website and email blasts, custom slides promoting each business on channel 17, biweekly combo ad featuring each business in Morgan Hill Times, directional signs guiding traffic to alternative parking and temporary entrances, television ad featuring each business on KSBW (NBC affiliate), customized banners and signs for each business, and customized ad on Public WiFi Project banner for each business.
 - b) Assisted with the formation of the Morgan Hill Downtown Property Based Improvement District (MHDPBID).
 - c) Continued funding the Morgan Hill Downtown Association (MHDA) to operate a Main Street program in downtown.

- d) Funded the “Waiting for the Train” bronze statue located at the Train Depot and mural on the fence along the southside of the 3rd Street Promenade. The Agency spent \$80,000 during the reporting period.
- e) Worked with Santa Clara County to develop the new Morgan Hill Courthouse located on Butterfield Blvd. The County opened the facility in 2009. The Agency ground leases the property to the County. During the reporting period, the Agency contributed \$3,500,000 to the County for the project.
- f) Entered into a Disposition and Development Agreement (DDA) for the rehabilitation and conversion of the former police station on Monterey into the El Toro brewpub/restaurant which opened November 2006. Amended the DDA to provide the developer with a \$400,000 “bridge” financing loan.
- g) Entered into an Owner’s Participation Agreement (OPA) for the redevelopment of the Gunter Brother’s Feed Store into a mixed use development project. The Agency approved a \$350,000 loan and \$112,000 façade grant to this project.
- h) Approximately 90% of the Façade Improvement Grants were provided to Downtown properties.
- i) Assisted with development and adoption of the Downtown Specific Plan
- j) Installed downtown directional signs and business directory kiosks.
- k) The Agency provided financing to assist a developer (EAH) acquire property to develop an affordable housing project. The project has since changed to be a 50% market rate for-sale townhomes and 50% affordable senior apartments in the downtown area.
- l) The Agency assembled key parcels to facilitate commercial and residential development in downtown. Towards this end, the Agency issued a Request For Qualifications (RFQ) for developers interested in developing the Agency’s properties. The RFQ process will be completed as part of the next reporting period. In the interim, the Agency has been managing the acquired properties.
- m) Created a commercial rehabilitation loan for downtown businesses. Issued one loan of \$53,000 to Booksmart for tenant improvements.
- n) Funded the Downtown Parking Management Plan and adopted a parking strategy to implement the parking plan.
- o) Retained a muralist to paint a mural depicting Morgan Hill past, present, future on the plywood fence along the 3rd St. promenade.

6. Preservation of historic buildings: Utilize low interest loans and grants to assist community

historic preservation efforts.

The Agency Provided the Morgan Hill Historical Society with a \$350,000 loan/grant from the Agency for the completion of the relocation and rehabilitation of the Morgan Hill Historical Museum to the Villa Miramonte site

D. Administration

From January 2005 to December 2009, the Agency spent about \$9,500,000 for administrative activities, \$6,678,000 in debt service payments, \$13,048,000 in statutory pass-thru payments to taxing agencies, \$1,311,000 in county administrative fees for the Project Area, and \$2,877,000 in ERAF payments. The following are the significant administrative activities:

1. Completed a Plan Amendment in 2006 which, among other things, increased the tax increment limit.
2. Celebrated the 25 year anniversary of the Agency via a direct mailer, website, and newsletter to inform the community of the Agency's accomplishments over the past 25 years. Continued communication efforts in subsequent years using the "Making it Happen" Theme
3. Issued \$110,000,000 in tax allocation bonds to expedite infrastructure improvements and facilitate private development in downtown as well as in the Project Area. The Agency started making debt service payments in FY07-08.
4. Amended the 5 year Implementation Plan and prepared the mid-term report on the 5 year plan.

V. GOALS AND OBJECTIVES FOR THE PROJECT AREA (2010-2014)

The general purpose and objectives of the Agency's Redevelopment Plan are to prevent the recurrence of and to eliminate the remaining conditions of blight in the Project Area. The Agency proposes to eliminate such conditions (including, without limitation, flooding and poor traffic circulation) and prevent their recurrence by providing the following:

- Providing for the continued planning, development, re-planning, redesign, clearance, redevelopment, reconstruction and rehabilitation of the Project Area for such structures and spaces as may be appropriate or necessary in the interest of the general welfare, including, without limitation, recreational and other facilities incidental or appurtenant to them;
- Providing for the alteration, improvement, modernization, reconstruction or rehabilitation of existing structures in the Project Area;

- Providing for open space uses;
- Providing for the development of public and private buildings, structures, facilities, and improvements; and,
- Providing for the replanning or redesign or development of undeveloped areas.

More specifically, the Agency proposes to:

- Promote and facilitate expansion and development of new and the retention of existing commerce and businesses to, among other benefits, improve employment opportunities and economic growth within the Project Area;
- Encourage the redevelopment of the Project Area through the cooperation of private enterprise and public agencies;
- Provide public infrastructure improvements such as the installation, construction and/or reconstruction of streets, utilities, facilities, structures, flood control facilities and projects, street lighting, undergrounding of overhead utility lines, sewer systems, and other improvements and actions which are necessary for the effective redevelopment of the Project Area;
- Provide for the development of community buildings and facilities which are necessary for the effective redevelopment of the Project Area;
- Continue to upgrade and improve the Downtown so that it will continue to serve as the social and commercial center of the community;
- When feasible, provide owner participation opportunities in conformance with the Redevelopment Plan;
- Provide for the rehabilitation of buildings and other structures, especially those buildings, structures, and sites that are of architectural and/or historic value to the City, where determined financially feasible and where the structures can and will serve a significant purpose;
- Substantially balance the housing stock and economic base of the community;
- Encourage the enhancement of the residential neighborhoods in the City, especially in terms of basic livability for the residents of the Project Area;
- Increase, improve and preserve the community's supply of affordable housing, encourage housing improvement and rehabilitation, and encourage public and/or private initiatives, within the parameters of the City's Growth Management System, that preserve and enhance the supply of affordable housing throughout the Project Area;

- Provide for the minimum displacement of residential homeowners and provide relocation assistance where Agency activities result in displacement; and
- Preserve and enhance the “rural, small town” environment of Morgan Hill.

Additionally, the Agency will observe and work to fulfill the goals of the City’s General Plan, the goals of the updated Downtown Plan, and goals & objectives of the City’s Economic Development Strategy, which are incorporated herein by reference.

VI. PROPOSED NON-HOUSING PROGRAMS, POTENTIAL PROJECTS AND ESTIMATED EXPENDITURES (2010-2014)

This section identifies a list of programs and projects that are proposed for the five year Implementation Plan period. Program/project categories are highlighted in bold type. Underneath each category heading is a list of possible projects. While these programs and projects reflect the objectives of the Redevelopment Agency at this time, both internal and external factors such as Agency/City policy and priority changes, reallocation of funds to other activities, financial resources available to the Agency at any given time, and the state of the economy, could impact which programs and projects are actually undertaken and the order in which they are undertaken. Just because a project is identified in this Plan, it does not imply the project is approved and/or authorized by the Agency.

To the extent possible, the Plan identifies the amount of Agency funds allocated to the project and anticipated to be spent during the Plan period. For capital projects, this Plan uses the City’s 5 Year Capital Improvement Program for project estimates. If the project or program is also listed in the Non-Housing Accomplishments section, the description will be brief in this section. In some instances, there are not specific budget amounts associated with programs/projects because the scope of work and costs are unknown or the programs/projects are not funded at this time. However, these estimates are subject to change due to a variety of factors such as inflation, design, change of Agency priorities, available funding, and timing.

A. Community Facilities

Community facilities focus on new or enhanced existing facilities such as buildings, parks, open space, and public art. Projects are anticipated for development using Agency and/or other funds from the City and other public, State, and Federal agencies. These projects are intended to encourage further investment in the Project Area by making the area a more desirable place to live and visit. Some of these projects were described in the Accomplishments section so only a brief description is in this section. The cost estimates represents the Agency’s best guess, but are subject change depending on the bid environment and level of improvements required. Below is a list which includes, but is not limited to, the following:

1. Community Center Improvements: Miscellaneous improvements to enhance the center such as a new marquee sign, door replacement and replacement of turf with drought

resistance landscaping. The door replacement project is in the construction phase and is projected to be completed in February 2010. The estimated budget for the door replacement project is \$62,000. Total estimate : \$152,000

2. Centennial Recreation Center: Construction of the fitness room expansion. Total cost during this Plan period: \$1,190,000.
3. Aquatics Center: Miscellaneous improvements such as turf conversion to reduce irrigation costs, and ground lease of the property. The Agency anticipates exercising its option to purchase the property during this Plan period. Total cost during this Plan: \$2,400,000
4. Cultural Arts programs: These Art programs include public art in the downtown or at community facilities. Public Art and Cultural Art programs contribute to and enhance the vibrancy of community facilities and the downtown which in turn attracts more visitors and patrons to the area, thus, encouraging more private investment in the Project Area. Total estimate: While no funds are currently allocated, the Agency may consider allocating funds depending on the type of project and availability of funds.
5. Community Park Improvements: Implement the masterplan for Community Park. Total estimate: While no funds are currently allocated, the Agency may consider allocating funds depending on the type of project and availability of funds.
6. Miscellaneous Community Facility Improvements: Design and construction of miscellaneous improvements to community facilities to upgrade and/or enhance the facility. Total estimate: While no funds are currently allocated beyond the specific improvements detailed in this Plan, the Agency may consider allocating funds depending on the type of project and availability of funds.

B. Public Improvements

The Agency has allocated funds for public improvements to encourage private investment in the Project Area. Public Improvements include, but are not limited to, replacement and for construction of street, sidewalks, curb, gutters and other elements of the public right of way; landscaping , street lights, fencing, flood control measures, and , sewer, water, and storm drain capital improvements. The street improvements in the right of way will improve vehicular and pedestrian circulation. The financing and construction of public improvements will provide improved public health, safety, and welfare due to better pedestrian and traffic circulation and access, improved night visibility and street lighting, and enhance aesthetics through streetscape design and construction. Public improvements also provide an incentive for private reinvestment. The ability of an area to attract new investors and to encourage existing businesses and property owners to maintain and reinvest in their properties depend not just on the quality of surrounding buildings but on the quality of the amenities serving the building stock. Many of these improvements will be funded from bond proceeds. Below is the list of proposed projects and programs:

1. Pavement Reconstruction Program: Replace, reconstruct, and/or upgrade existing street surfaces at various locations within the Project Area. Total estimate: \$3,000,000, the Agency plans to budget \$750,000 per year thru FY2012/13 for this activity.
2. Butterfield Boulevard Extension South: This project would extend Butterfield Blvd. from Tennant Avenue to Watsonville Rd and Monterey and includes the design, acquisition of the needed right of way and construction of the street including a grade separation at the RR tracks. Total estimate: \$11,470,000
3. Butterfield Blvd. Extension North: This project would extend Butterfield Boulevard to the north from Cochrane Road to Madrone Parkway. Total estimate: This project was indefinitely delayed due to the impacts of ERAF on Agency resources, but the 5 Year CIP budgeted an amount of 1,005,000. As funding priorities change, the Agency may choose to allocate funding to this project in the future.
4. Local/Collector Street Construction/Reconstruction: Design, construction, and installation of such improvements as street reconstructions, medians, ADA ramps, sidewalk, curb, gutter, traffic signals, lighting and landscaping in various locations. Funds are only currently budgeted for ADA ramp improvements, but additional funds may be allocated as Agency priorities change. Total estimate: \$126,000
5. Cochrane Road Traffic Signal Timing/Coordination and /Striping Improvements: Interconnect traffic signals and striping to improve traffic movement and safety on one of the three key entryways into the Project Area. Total estimate: This project was indefinitely delayed due to the impacts of ERAF on Agency resources, but the 5 Year CIP budgeted an amount of \$805,000. As funding priorities change, the Agency may choose to allocate funding to this project in the future.
6. Monterey Road Improvements: Design and construct median improvements with landscaping on Monterey Rd. from Tilton Ave. to Maple Ave. Improvements may also include sidewalk, curb, and gutter along the shoulder of Monterey Rd. depending on the location. Total estimate: This project was indefinitely delayed due to the impacts of ERAF on Agency resources, but the 5 Year CIP budgeted an amount of \$2,400,000. As funding priorities change, the Agency may choose to allocate funding to this project in the future.
7. Santa Teresa Road Improvements: Design and construct Santa Teresa from Main Ave. to Spring St. including the installation of sidewalk, curb, gutter and streetlights. This project is identified in the City's General Plan, but requires authorization by the Agency/City to proceed. The cost also includes acquiring the necessary right-of-way for the project. Total estimate: \$17,260,000
8. West Dunne Avenue Widening Improvements: Widen West Dunne Ave. from Monterey Road to Santa Teresa including the installation of sidewalk, curb, gutter and streetlights.

During the Plan period, the Agency anticipates acquiring the necessary right-of-way and beginning design of the project. Total estimate: \$9,265,000

9. Undergrounding Monterey Rd. Utilities: This project will underground utilities along Monterey Rd. from Dunne Ave. to Tennant Ave. The majority of the funding comes from P&GE's Rule 20 A funds. The Agency funds cover a portion of construction and administrative oversight costs. Total estimate: \$190,000
10. Highway 101/Tennant Ave. Interchange: Construction of the Tennant Ave./Hwy 101 overpass widening and construction of a loop ramp for northbound Hwy 101 will improve access to the Project Area, thus, facilitating private development in the Project Area. Total estimate: \$8,939,000
11. Flood Control projects: Design and construct flood control improvements to mitigate flooding in the Project Area, including the acquisition of needed right of way for flood control projects. Specifically, the Agency has partnered with the Santa Clara Valley Water District (SCVWD) to fund the design and environmental review of the Llagas Creek Flood Protection Project (PL566). This will hopefully facilitate the federal funding of PL 566 which would significantly alleviate flooding in the Project Area. Total estimate: \$3,000,000
12. LED Street Light Conversion: Convert existing high sodium vapor street lights in Project Area to LED lights. Total estimate: \$1,500,000
13. Project Area infrastructure improvements: Design and construction of various water, sewer, and storm drain and/or utility undergrounding projects which benefit the project area. Total estimate: No funds have been budgeted at this time, but based on changing priorities, the Agency may allocate or reallocate funds to these projects in the future.

C. Downtown Projects and Programs

The Agency anticipates funding a variety of projects and programs for downtown with the goal of making downtown a vibrant destination for residents and visitors alike. The strategy to implement this key goal as well as the other goals of the Agency is to use public investment to attract and stimulate private investment. The Agency used agreements, such as Development and Disposition Agreements (DDA) and Owner Participation Agreements (OPA) to form public and private partnerships. These agreements lead to the development of office buildings, retail spaces, mixed use development, and housing. Through agreements, the Agency also encourages the retention and restoration of older buildings and the redevelopment of vacant and underutilized properties which both are often sources of blighting conditions. The Agency may also need to assemble additional parcels or write down land costs of previously acquired parcels in order to stimulate private development in the downtown area. The Downtown Specific Plan will be the guide for the type of development and public improvements the Agency will develop and/or pursue. With the 2006 Plan Amendment, the Agency anticipates allocating upwards of \$40,000,000 for the various downtown programs and projects. When possible, the Agency has estimated expenditures for each program and/or project. However, it is difficult to predict how much of

the \$40,000,000 will be spent during the Plan period given project delays and changes in Agency priorities.

These projects and programs proposed for the downtown area over the next five years include, but are not limited to:

1. Third Street Promenade Improvements: Complete the construction of the pedestrian friendly Third Street Promenade, which is meant to be the outdoor plaza and central hub for downtown activity. Total cost: \$2,432,000
2. Downtown Street Revitalization Improvements: Revitalization of various streets and areas in downtown including traffic calming improvements, entry feature and/or directional signage, street furniture, median improvements, replacement of streets including curb, gutter and sidewalks, lighting and landscaping enhancements and improvements, and/or utility undergrounding. Total estimate: \$10,470,000
3. Parks and Pathways: The design and construction of small parks or paths in or to the downtown area per the Downtown Specific Plan including lighting and landscaping. The Agency will also commit about \$1,000,000 to fund the downtown area's share of city park improvements to accommodate and stimulate future residential development in the downtown area. Total estimate: \$2,200,000
4. Downtown Parking: The Agency will take actions per the Downtown Parking Management Plan to develop an adequate supply of accessible and affordable public parking. These actions may include the acquisition/lease of parcels to preserve or expand existing parking, converting private lots to public parking, and/or the design and construction of surface or structured parking to provide the needed spaces including the possible construction of a parking structure. Total cost estimate: \$5,030,000. Additional funds could be allocated depending on the opportunities and need to develop certain parking improvements to facilitate private investment in downtown.
5. Downtown Business Improvement and Assistance programs: The Agency will continue to fund existing programs such as the Façade Improvement Grant and the Commercial Rehabilitation Loan programs. The Agency will also continue to fund its programs to assist businesses during the construction of public improvements. These programs include such tasks as signage, advertising, TV ads, and direct mailings to inform the community that downtown is open during construction. The Agency may also provide assistance to those businesses deemed to be incompatible uses in downtown. The Agency's assistance would be to facilitate the businesses' relocation so that the properties could be redeveloped to its highest and best use. Total estimate: \$200,000 per year for the façade grant and commercial loan program. The Agency allocates funds depending on need and the opportunities that present itself.
6. Downtown Development program: To facilitate residential and commercial development in downtown, the Agency issued a Request For Qualifications (RFQ) for developers interested in developing key catalyst sites in downtown. This program may require the

Agency to transfer its assembled parcels of property to a private development and/or provide additional assistance to facilitate private investment. The Agency may also acquire additional properties for infrastructure or private development purposes in order to facilitate development in downtown. . The Agency's efforts would be applied in very selective cases. Furthermore, all acquisitions would be voluntary as the Agency does not have the power of eminent domain. Land assembly would likely take place for those blighted properties in which Agency involvement is needed to facilitate private investment. The program may include site preparation activities such as demolition and environmental remediation. The Agency would be responsible for any relocation assistance triggered by its acquisition of property. Total estimate: upwards of \$5,000,000 has been allocated for this activity, but this amount will vary depending on the specific transaction and how it best meets the Agency's goals.

7. Retail/Entertainment Recruitment Activities: The Agency will consider the creation of new programs to stimulate private investment and to create and resurrect retail entertainment space including the possible reopening of a movie theater in the downtown area. The supply of ground floor retail space is an important way for the Agency to bring new retailers to the downtown. The supply of ground floor space adequate for retail uses must continue to increase in order to attract more tenants. The Agency may provide limited loans and grants to encourage the development and/or rehabilitation of such retail space. The Agency may also need to acquire, masterlease, and/or assemble properties to facilitate mixed use developments to create or resurrect the required retail/commercial space. Total estimate: Any funding for this activity would come from the funding allocated to the Downtown Development Program.
8. Historic Preservation: Provide loans/grants to preserve historic resources such as the Grange Hall. Total cost during this Plan period: No funds are committed at this time.
9. Other programs and activities: The Agency will continue its financial support of downtown organizations such as the MHDA and MHDPBID. The Agency will also continue to fund studies such as the update to the Downtown Plan. Total cost during this Plan period: \$600,000

D. Economic Revitalization

The Agency will sponsor a variety of business programs and activities that promote or support economic revitalization in the Project Area. These programs and activities will foster maintenance of and improvements to buildings and neighborhoods as well as encourage private investment in the Project Area. These programs and activities include, but are not limited to, the following:

- Property Management/Special Studies
- Marketing/Advertising/Communication activities and materials
- Business Attraction/Retention Programs
- Special Studies
- Facade Improvement Program
- Business Assistance/Recruitment Loans/Grants

- Commercial Rehabilitation Loan Program
- Special Tenant Improvement and Equipment Loan Program
- Impact and In-Lieu Fee Financing Programs
- Historic Preservation (outside of downtown)
- Graffiti abatement program
- Special Supplemental Police Services Program
- Land Assembly Program
- Blight Busters Program
- Transit Oriented Development
- Economic Development Partnerships (e.g., Morgan Hill Chamber of Commerce)
- Morgan Hill Courthouse

Some activities of note listed above are the following:

- Special Supplemental Police Services Program: Continue funding this program which is aimed at eliminating particular criminal activities by funding up to three police officers and one support staff to focus on crime suppression and gang activities in the Project Area. This program is an effort by the Agency to stimulate new private development and help preserve existing development in the Project Area by eliminating physical blighting influences in the Project Area related to criminal activities. In addition, these services will also assist economic revitalization efforts by alleviating crime in the Project Area. Existing businesses may close or potential new businesses may choose not to locate to an area if crime or the perception of crime is prevalent within certain areas. This program will stimulate economic revitalization by filling or avoiding the creation of new business vacancies in the Project Area.
- Land Assembly program: Similar to the downtown program, the Agency may assemble parcels of property into sites suitable for commercial and residential development, and to transfer property for private development. The Agency's efforts would be applied in very selective cases. Furthermore, all acquisitions would be voluntary as the Agency does not have the power of eminent domain. Land assembly would likely take place for those blighted properties in which Agency involvement is needed to facilitate private investment. The Agency may also acquire property for infrastructure or public facility purposes. The program may include site preparation activities such as demolition and environmental remediation. The Agency would be responsible for any relocation assistance triggered by its acquisition of property.
- Blight Busters program: This program targets specific properties/buildings and neighborhoods that exhibit physical or economic blight characteristics and/or influences in the Project Area. The purpose of the program is to encourage owners to repair/rehab their residential or commercial properties. The Agency will develop new or use existing programs to encourage owners to eliminate the blighting characteristic or influence of

their properties in the targeted area. (e.g., housing rehab loan, paint or clean up grant).

The activities in this section are typically included in the annual budget, but change from year to year to reflect revisions in Agency priorities and development opportunities. As a result, the amount spent and budgeted per year will vary. The Agency anticipates budgeting about \$6,340,000 during the Plan period for Economic Revitalization activities.

E. Administration/Debt Service/ERAF

This section covers the Agency's administrative expenses, debt service for paying for outstanding bonded indebtedness, statutory pass-through payments, and SERAF payments to the state. Agency Administration includes employee salaries and benefits, supplies and materials, capital outlays, county administrative fee for the project area, and prorated share of related general fund expenses (i.e., internal services). The Agency issued bonds with variable interest rates which have been favorable to the Agency. While the repayments have been lower than anticipated, for budgetary purposes, we use a conservative estimate to account for any large increases in the bond interest rate. With regard to State ERAF payments, the Agency will be paying the State \$10,900,000 over the Plan period. For FY09-10, the Agency will pay for SERAF by borrowing from its 20% Affordable Housing Setaside funds to pay a portion of the SERAF payment (\$4.3M) and funding the balance by delaying or eliminating future Agency projects. The Agency will fund its SERAF payment for FY10-11 by borrowing the entire amount of \$2,100,000 from the Housing Setaside fund. The repayment of the borrowed housing funds will occur in the next 5 year plan period (2015-2019).

Total estimate: Administrative costs are estimated to average about \$2,700,000 per year. Debt service payments are estimated at an average of \$6,800,000 per year. Statutory pass-thru payments will average about \$3,800,000 per year. The total SERAF payment is \$10,900,000 for the Plan period.

VII. AVAILABLE FUNDING FOR NON-HOUSING PROJECTS AND PROGRAMS (2010-2014)

The following table shows the Agency funds that are projected to be available to implement the proposed programs and projects.

Projected Annual Available Non-Housing Funds (2010-2014)

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
\$98,700,000	\$51,500,00	\$22,500,000	\$21,400,000	\$24,600,000	\$218,700,000

In 1999, the Agency increased the amount of Tax Increment (TI) which could be collected by the Agency from \$100,000,000 to \$247,000,000, net of pass-through payments. In November 2006, the Agency approved a Plan Amendment to increase its fiscal cap from \$247,000,000 to \$580,000,000, net of payments to affected tax agencies.

In the 2006 Plan Amendment, the Agency reauthorized its ability to incur bonded indebtedness. Under this authority, the Agency issued \$110,000,000 in tax allocation bonds in February 2008. The Agency did not issue bonds for affordable housing activities. The bond proceeds are being used to fund Agency projects and programs improvements that benefit the Project Area which include the acquisition and assembly of parcels to stimulate the private investment in the Project Area. The total estimate of \$218,700,000 in available funds over the Plan period includes bond proceeds, tax increment, investment earnings, and other revenues (e.g., loan repayments). Bond proceeds are projected to be spent primarily in 2010 and 2011 for capital improvement projects. For 5 year Plan period, the Plan uses the projected revenue for the fiscal year and not calendar years. As a result, the revenue is overstated because it includes six months prior to and after the 5 year Plan period. We used this approach because projects are budgeted for on a fiscal year basis and not calendar year. Agency non-housing funds not used to secure the bonded indebtedness starting in 2008 will be used to pay for administration, economic revitalization activities, and capital improvements not funded with bond proceeds.

VII. HOW THE GOALS AND OBJECTIVES, NON-HOUSING PROGRAMS, PROJECTS AND EXPENDITURES WILL ELIMINATE BLIGHT IN THE PROJECT AREA

The goals and objectives of the Agency together with the proposed programs, projects, and expenditures over the next five years, will continue to eliminate blight in the Project Area. The provision of Community Facilities, Public Improvements, Downtown programs and projects, and Economic Revitalization will assist in eliminating health and safety hazards and, in addition, will assist in eliminating factors which prevent or substantially hinder the economic viability or capacity of buildings or lots. The Economic Revitalization activities will also help to ensure a strong and healthy local economy. All of these programs, projects, and activities will encourage private sector investment in the Project Area. The following illustrates how this will be accomplished:

A. Community Facilities

The Agency has constructed community facilities and will continue to construct new and improve existing facilities because these facilities have a very positive impact on the quality of life for residents, particularly for children. Involvement in social activities such as youth sports and clubs provides a positive outlet for young people, reduces the amount of idle time available, and refocuses youthful energies and activities. Juvenile crime is anticipated to decline with the completion of the many community facilities identified in the Accomplishments section of the Plan. Additionally, the creation of a physically attractive environment, rich in activities for all ages, results in community pride which spurs home and community investment, and ultimately, raises the standard of living for everyone. The appreciation of property values is the likely outcome. In addition, the development of the many community facilities improves the quality of life in the Project Area which in turn attracts private investment because the quality of life is a key factor in a company's decision

to locate in the Project Area. In addition, these community facilities act as catalyst projects for economic revitalization as many of the visitors to these facilities are from places other than Morgan Hill. They spend money at local businesses, restaurants and motels, thus encouraging more private investment to accommodate the need.

B. Public Improvements

The blighting influences in the Project Area include land uses incompatible with industrial, commercial, and residential development; properties of inadequate size and shape; the absence of sidewalks and appropriate street lighting; and inadequate sanitary sewers and storm drainage systems. Additionally, many of the buildings in the older industrial areas of Morgan Hill have structural and infrastructure deficiencies that make them economically infeasible to meet modern industrial needs. Inadequate internal traffic circulation continues in some instances to be a deterrent to effective development in the Project Area, as portions remain difficult to access or the road structure is in need of upgrading. There are also industrial sites with hazardous materials or contaminated soils. The presence of these conditions seriously inhibits development potential within the Project Area.

The Redevelopment Agency continues to respond to the general and specific infrastructure needs in the Project Area, in order to sustain the existing industrial/commercial base and allow future projects to proceed without any impediments.

Tracts of undeveloped and/or underutilized land remain in the Project Area. These sites remain undeveloped because the cost of the public infrastructure improvements is a significant hurdle to private development. The Redevelopment Agency, therefore, will continue to assist with the construction of infrastructure, such as street improvements, as necessary and appropriate. Additionally, the Redevelopment Agency, participates in projects that help eliminate the visual blight in the Project Area, including median landscaping and gateway enhancements. These Redevelopment Agency funded projects and programs assist in the elimination of blight conditions by addressing the problems associated with the lack of adequate infrastructure, the inability of the private sector to develop vacant and/or underutilized land in a manner appropriate and conducive to industrial development and the adverse impacts of traffic congestion and environmental impacts.

Redevelopment Agency support through its program and activities will encourage and provide incentives for existing owners and the private sector to develop underutilized and blighted properties.

Improvements to the public infrastructure system will also provide an environment to stimulate revitalization and growth in the Project Area. The construction and upgrade of necessary public improvements and facilities will provide improved public health, safety and welfare due to better pedestrian and vehicular traffic circulation and access as well as enhanced aesthetics through streetscape design and construction. Installation of needed public improvements is imperative to the redevelopment of the Project Area and the attraction of private investment to the area.

Specifically, street improvements are necessary for several reasons. First, reconstructing dilapidated streets, providing sidewalks and bike paths, adding signalization, constructing medians, and modifying streets to accommodate changing traffic demands helps eliminate safety concerns. Second, new and expanded roadways are necessary to safely and efficiently handle and attract new residential, industrial, and commercial growth. Third, the new roadways provide safe and convenient access to different parts of the City, which makes the Project Area a more desirable place to live, work, and establish a business.

The work envisioned over the next five years is intended to start and/or complete ongoing programs and projects that will significantly upgrade the Project Area. Through the programs and projects that encourage new companies to locate, or existing companies to expand in the Project Area, the Agency is continuing to address both the physical and economic blight that still remains in the Project Area

C. Downtown Programs and Projects

Within the Project Area, the following physical blighting conditions continue to be significant: poor site conditions, poor building conditions, site contamination and parcels of irregular shape and form. Furthermore, economic blighting conditions such as large vacant parcels and underutilization of other parcels continue to inhibit the ability of this area to survive and improve without continuing assistance from the Redevelopment Agency.

Redevelopment activities may include acquisition and assembly of small, underutilized and/or poorly configured parcels of land, which would otherwise be inadequate for modern development. The proposed redevelopment program would provide an incentive for existing owners and the private sector to reinvest in their underutilized and blighted properties. New development will encourage further development, generated demand for Project Area properties and increase property values. Improvements to the public infrastructure system will provide an environment to stimulate revitalization and growth in the Project Area. The ability of an area to attract new investors and to encourage existing businesses and property owners to maintain and reinvest in their properties depends not just on the quality of the surrounding buildings, but on the quality of the amenities serving the building stock.

The provision of adequate and easily accessible parking will assist in the retention and attraction of businesses within the Project Area. The construction and upgrade of necessary public improvements and facilities will provide improved public health, safety, and welfare due to better pedestrian and vehicular traffic circulation and access, better night visibility and enhanced aesthetics through streetscape and design construction. The proposed parking projects will not only meet the demand generated by the new development, but will also ameliorate the parking deficiency.

Street landscaping improvements will substantially enhance the appearance of the Project Area, making the Downtown attractive to new commercial and residential development. Installation of needed public improvements is important to the redevelopment of the Project

Area and the attraction of private investment to the area.

The Redevelopment Agency's programs are designed to bring new visitors in to the Downtown to continue the demand for services and growth. These programs will create greater opportunity for housing at all affordability levels within the Downtown core. Housing supports the existing and future retail/commercial establishments. By supporting a range of community facilities such as the Community and Cultural Center and the Morgan Hill Courthouse, the Redevelopment Agency helps introduce thousands of visitors to the Downtown. The creation of a critical mass of users, both day and night, continuously brings new energy to the Downtown to aid in its renewal.

The work envisioned over the next five years is intended to continue ongoing programs that have visually and physically improved the streets and helped create an environment supportive of Downtown office and retail development. Through programs that encourage building owners and merchants to rehabilitate their properties, the Redevelopment Agency is directly addressing the remaining physical and economic blight in the Downtown.

D. Economic Revitalization

Leap frog and piece meal development, over the years, has resulted in incidences of inappropriately mixed-use development and areas of marginal economic viability. Combined with the physical factors of blight found in the Project Area, government intervention is necessary to spur private investment in the community. Economic Revitalization projects and programs are intended to promote the economic vitality by attracting new businesses, retaining existing businesses, encouraging business expansion, creating and retaining jobs for residents, and bringing private sector support to the community. Providing economic revitalization services helps to create a diverse economic base and stimulate revenues for needed City services

IX. AFFORDABLE HOUSING REQUIREMENTS

Under California Community Redevelopment Law (CCRL), redevelopment agencies are required by law to "set-aside" not less than 20% of their tax increment revenues to increase, improve, and preserve the community's supply of affordable housing. In addition, redevelopment agencies are accountable for spending their "20% Set-Aside Funds" in a timely manner (the "Housing Set-Aside Requirement") and also for producing affordable housing within the project area (the "Housing Production Requirement"). This affordable housing production requirement is an "inclusionary" requirement because it applies to all units developed within the Project Area whether assisted by the Agency or developed by the private sector. Section X of this Plan describes in more detail how the Agency will ensure the inclusionary requirement is met in the Project Area.

A. Housing Set-Aside Requirement

CCRL requires that not less than 20% of all tax increment income generated by the Project

Area is used for the purpose of increasing, preserving or improving the community's supply of affordable housing.

B. Housing Production Requirement

CCRL also requires that at least 30% of all new and substantially rehabilitated housing units developed by an agency be available at affordable housing cost to, and occupied by persons and families of low or moderate income households. Specifically, not less than one-half of the 30% must be available at affordable housing cost to, and occupied by, very low-income households. Housing units that are "developed by an agency" are those units where the agency serves in the capacity of developer. To date, the Agency has not acted in this capacity, nor does it anticipate doing so in the future.

Redevelopment law further requires that at a minimum, 15% of all new and "substantially" rehabilitated housing units developed within a project area by entities or persons other than a redevelopment agency, be available at affordable housing costs to, and occupied by persons or families of low or moderate income. Specifically, at least 40% of the 15% must be available at affordable housing costs to and occupied by very low-income households. Since the Agency has actively assisted affordable housing production, but has not served as developer, the Morgan Hill Redevelopment Agency is required to comply with this 15% affordable housing production requirement.

C. Housing Production Accomplishments (2005-2009)

Under CCRL, the Agency must report on its housing production for the last Implementation Plan period (January 2005-December 2009). The Agency entered the last reporting period commencing January 1, 2005, with a 677 housing unit credit balance. In the very low income (VLI) category, the Agency had a credit of 338 units, and 339 units in the low/moderate income (LMI) category. This credit balance alone would have been sufficient to meet the Agency's Housing Production requirement for the last reporting period (2005-2009).

X. HOUSING PRODUCTION ACCOMPLISHMENTS AND PROJECTIONS

This section contains the Accomplishments of the Agency (January 2005 thru December 2009), Housing Production Projections for the Plan Period, and how the Agency meets it's the Proportionality Requirements and Compliance Plan required under CCRL

A. Housing Production Accomplishments

Since 384 housing units were produced and substantially rehabilitated in the Project Area from 2005-2009, the Agency was required to assure that 58 affordable units were produced: 23 VLI and 35 LMI. During this time period, 174 new affordable housing units were produced within the Project Area. The Table below shows that 137 of the total 174 affordable housing units were produced with Agency assistance and 37 units were produced without Agency assistance.

Project Area Housing Production (2005 - 2009)

Total # of Units Produced ²	% Required	Number Required	Number of Affordable Units Produced			Units Lost ³	Previous Credit	New Credit Balance
			Assisted	Unassisted	Total			
384	VLI 6%	23	74	0	74	19	338	340
	L/M 9%	35	63	37	100	0	339	404

The unassisted units were produced as a direct result of the voter-initiated “managed growth” system, called the Residential Development Control System (“RDSCS”). Under the RDSCS, new housing production is limited annually to ensure the population ceiling of 48,000 in the year 2020. Competitions are held annually to award building allotments. Developers are encouraged to develop between 8%-12% of their units as income-restricted, affordable housing in order to maximize their points in the competition. These units are known as Below Market-Rate Housing (BMR).

The Agency’s new housing credit balance at the end of the last reporting period, December 31, 2009, will be 744 units consisting of 340 VLI and 404 LMI units.

The following table shows the specific affordable housing projects completed within the Project Area annually for the 2005-2009 reporting period. It shows both unassisted (e.g., BMR units) as well as Agency-assisted units produced in the Project Area, by income category. With the exception of the BMR units, all of the following projects are either family ownership or rental projects developed by non-profit agencies. The assisted rental units are income restricted for 55 years and the ownership units are resale restricted for 45 years.

Housing Production By Income Category (2005-2009)

	2005		2006		2007		2008		2009	
Unassisted	VLI	L/M	VLI	L/M	VLI	L/M	VLI	L/M	VLI	L/M
BMR	0	8	0	11	0	7	0	3	0	0
Morgan Station				8						
Assisted										
Madrone Plaza							1	18	3	10
Viale			1	8						
Royal Court Townhomes Apartments			8	1	46	6				
Murphy Ranch	15	23								
Total	15	31	9	28	46	13	1	18	3	10

² The Agency estimates up to 20 units substantially rehabilitated in the Project Area.

³ This number indicates homes lost as a result of an Agency funded affordable housing project (13) or BMR units lost via foreclosure (6).

Totals by income category are: 74 VLI and 100 LMI for a total of 174 affordable units produced 2005-2009. These numbers correspond with the "Project Area Housing Production (2005-2009)" table listed above.

The following is a brief description of the projects listed in the above table:

BMRs

These are single-family homes or townhouses provided by for-profit developers to the City as a requirement of their housing allocations pursuant to the City's Residential Development Control System (RDCS) for their market rate units. There are no Agency funds provided to the developer to construct these units. These for sale units are available to lower and median income households and the units are resale restricted for 45 years. The 41 BMR units located outside the Project Area, but within the city limits, were counted on a 2 for 1 basis, thus, adding 20 BMR units to the above chart. In order to preserve BMR units, the Agency will from time to time purchase BMR units at Trustee sales or via short sales. This program will not add to the affordable housing stock, but rather preserve the BMR unit since the Agency will sell the unit to another income qualified household. The unit will have a 45 year resale restriction.

Murphy Ranch

The Agency provided First Community Housing with a \$5,290,000 loan for a 100-unit rental complex built in two phases. The townhouse style apartments, located at Butterfield Blvd. and Dunne Avenue, have 2, 3 and 4 bedroom units. The first phase, built in 2003, consisted of 62 units, 42 of which are affordable to families with very low-incomes and 20 units affordable to low-income households. The second phase of 38 units, built in 2005, has 15 apartments affordable to very low income households and 23 low income households.

Viale

The Agency provided \$875,000 to South County Housing to develop 10 single family ownership homes at the corner of Watsonville Rd. and Calle Sueno. The homes were targeted to public school teachers and their families: 1 unit sold to very low income, 3 units sold to low income, 2 sold to median income, and 3 sold to moderate income households.

Royal Court

The Agency provided \$3,750,000 to South County Housing to develop 12 for-sale homes and 55 family apartments at the corner of Wright Ave. and Monterey Rd. The 55 apartments contained 1, 2 and 3-bedroom units: 20 units are for extremely low, 26 for very low, and 6 for low income families. Of the 12 for-sale homes, 9 were townhomes and 3 were open market single family detached units. The townhomes were sold to 8 low income families and 1 median income household.

Madrone Plaza

Madrone Plaza is a 95 unit single family home and townhome development located at Butterfield Boulevard and Jarvis Drive. This innovative development is mixed income consisting of 71 affordable townhomes and 24 market rate detached homes. The developer, South County Housing (SCH), has received the following assistance from the Agency: a)

\$1,900,000 in Agency funds for downpayment assistance loans to the buyers of the affordable units, b) \$2,000,000 in State RDLP funds to help acquire the property, and c) \$2,100,000 in BEGIN funds for downpayment assistance loans. SCH has sold 32 units: 4 to very low income, 21 to low income, 5 to median, and 2 to moderate income families.

Other Activities

The above Table does not include the 250 grants made to senior, mobile home, and disabled households. These grants totaled almost \$950,000. In addition, the Agency made 6 loans totaling about \$300,000 to rehabilitate single family homes. While monies spent in these programs go only to VLI and L/MI households, the majority of the units do not meet the definition of “significantly rehabilitated” and/or the rents are not restricted long enough to count the units under CCRL.

Also, not included in this housing count is the Agency’s \$265,000 contribution to the Housing Trust of Santa Clara County (HTSCC). These funds are used by the HTSCC to assist affordable housing projects and/or provide closing costs for first-time home buyers in Morgan Hill. During the reporting period, HTSCC assisted 49 households with loans totaling about \$317,000 and committed a \$500,000 loan to SCH for the Crest Avenue acquisition/rehab project.

B. Housing Production Projections By Project Type (2010-2014)

The following table shows the Agency's estimated housing production for the Plan Period.

Anticipated Affordable Housing Production by Income Category (2010–2014)

	2010		2011		2012		2013		2014	
	VLI	L/MI	VLI	L/MI	VLI	L/MI	VLI	L/MI	VLI	L/MI
Unassisted										
BMR		5		5		5		5		5
Assisted										
Casa Diana Senior Apt.			40							
Crossings Acquisition & Rehab	24									
Crest Ave. Apartments			40							
Downpayment Assistance loans		10		10		10		10		10
Habitat/Villa Nova	6									
Madrone Plaza		20		19						
Horizons Senior Apt	23	25								
New project (new construction or acquisition/rehab)									40	
TOTAL	53	60	80	34	0	15	0	15	40	15

Totals by income category are: 173 VLI and 139 LMI for a grand total of 312 affordable units estimated to be produced 2010-2014.

The “Anticipated Production” table (AP Table) shows the specific affordable housing projects estimated to be completed within the Project Area, annually for the next five years. It shows both Agency-assisted and unassisted (e.g., BMR units) units produced in the Project Area, by income category.

It should be noted that the AP Table does not include any units assisted with housing rehabilitation loans or grants. While all the participating households are income eligible per CCRL, the programs have limited affordability restrictions which would not allow the units to be counted toward production goals.

In the above Table, the “Unassisted” units designation refers to those units provided by private developers without any assistance from the Agency. Below is a description of the anticipated projects/programs. It should be noted that additional funds may be allocated

to projects/programs depending on the need and/or Agency's priorities at that time.

BMRs (see Housing Production Accomplishments for description)

Madrone Plaza (see Housing Production Accomplishments for description)

Crest Avenue Rehabilitation II

The Agency provided a \$4,400,000 loan to South County Housing (SCH) for pre-development and acquisition costs to acquire 40 units in six properties along Crest Avenue. These 40 units would be added to the 12 units South County Housing had previously acquired on Crest Ave. Acquiring the other properties on Crest Ave. (one 16 unit complex and 6 fourplexes) will allow SCH to complete a substantial renovation of the entire block. Renovation of the 52 units includes new windows, exterior paint, parking areas, heating systems, cabinets, plumbing fixtures in addition to installation of energy efficient appliances and other "green" features to ensure that the apartments are cost effective for residents to live in for the long term. The fifty-two (52) affordable rental units are for extremely low and very low income eligible families (25% and 50% of AMI).

The Crossings Rehabilitation

The Agency loaned Urban Housing Communities (UHC) \$2,600,000 to acquire and substantially rehabilitate a 24 unit apartment complex located at the corner of Wright Ave. and Hale Ave. The property includes 5 two-story wood frame garden-style buildings that contain 24, three bedroom units.

Horizons

The Agency will loan UHC \$5,200,000 to develop and construct a 49-unit senior apartment project at the corner of Central Ave. and McLaughlin Rd. Of the 49 units, 25 are for low income, 18 are for very low, 5 are for extremely low income households, and one manager's units.

Bella Terra (formerly Casa Diana)

The Agency has provided a \$3,700,000 loan to EAH to develop a 40 unit senior apartment project located on Dunne Ave and along the railroad tracks. The units will be available to extremely low and very low income senior households.

Downpayment Assistance Program

During the Plan period, the Agency will implement a downpayment assistance/equity share program for lower and moderate income, first time home buyers wanting to purchase a home in Morgan Hill. The home will be resale restricted for 45 years as a condition of the funding unless the loan/equity is repaid/shared. The repaid funds will be recycled into the program to help the next home buyer. The Agency anticipates assisting an average of 10 households a year with a budget ranging between \$500,000 to 1,000,000 per year for this program.

Habitat for Humanity (Villanova)

The Agency granted Silicon Valley Habitat For Humanity \$760,000 to develop six homes for sale to extremely low income families on the vacant parcel located on Cory Drive.

Other Programs and Projects:

During the Plan period, the Agency will be working to identify locations for new projects. Towards this end, the Agency works with non-profits to identify blighted and/or underutilized properties in need of redevelopment or rehabilitation. The projects would be affordable rental and/or ownership developments with the possibility of some commercial uses depending on the location. The Agency will also continue to landbank properties or assist non-profits to acquire these blighted properties for future development. The AP Table anticipates the Agency will assist 40 very low income units over the Plan period by funding one new affordable housing project, whether new construction or acquisition/rehab.

In addition, the Agency plans to proactively target homes for rehabilitation and to continue operating its Senior/Disabled and Mobile Home Repair Programs. The Agency will be reaching out to property owners to encourage them to rehabilitate their single family homes or rental properties in need of repair. We anticipate spending about \$2,000,000 on the housing rehabilitation and grants programs during the Plan period.

C. Project Area Housing Production Projections (2010-2014)

The Agency anticipates that it will continue to exceed all of its Housing Production requirements through its housing rehabilitation programs, the creation of new affordable housing programs and projects, and through new BMR units.

Since the RDCS dictates the total number of units that can be developed each year, the total number of units to be built citywide over the next five years can be estimated. The average annual housing allotments allowed under the RDCS is 250 per year. However, the depressed housing market has resulted in allocations being carried over from the 2005-2009 Plan period to the 2010-2014 Plan period as developers have not been building units in 2008 and 2009 at the same rate as prior years. It is estimated that about 2000 units will be produced from January 1, 2010 to December 31, 2014. In the prior Implementation Plan (2005-2009), it was projected that 70% of the housing units produced city-wide would be in the Project Area. The actual percentage was closer to 45% because many developments were not built in the Project Area. Now, because of significant changes to the RDCS allocation system and pent up supply, up to 80% of the housing units could be built in the Project Area for the following reasons:

- The RDCS was modified via voter approval of Measure A to exempt 500 units for development in downtown. These 500 units are in addition to the passage of Measure F which allowed development of 100 units in downtown without competing in the RDCS process.
- Many of housing projects that were placed on hold because of the depressed housing market were located in the Project Area; and

- The City adopted a Downtown Specific Plan which significantly increased the densities in the Downtown.

These changes will result in more units being built in the Project Area than ever before.

The chart below estimates that 1,600 units (80% of 2,000) will be built⁴ in the Project Area from 2010-2014. Therefore, the Agency will be required to insure that 240 affordable units are produced in the Project Area: 96 VLI and 144 LMI. However, it is projected that 312 affordable units will be developed over the next five years: 173 VLI and 139 LMI. The projected credit balance by December 31, 2014 is estimated to be 810 units (417 VLI and 393 LMI).

Summary of Affordable Housing to be Produced (2010-2014)

Total Anticipated	% Required	Number Required	Number Anticipated			Restricted Units Lost ⁵	Existing Credit	Projected Credit Balance
			Assisted	Unassisted	Total			
1,600	VLI 6%	96	173	0	173	0	340	417
	LMI 9%	144	114	25	139	6	404	393

D. Proportionality Requirements and Compliance Plan

The purpose of this section of the Implementation Plan is to satisfy the requirements of Health and Safety Code Section 33334.4 regarding the proportionality of 20% funds used and planned for the ten-year compliance period.

Pursuant to Section 33334.4 (a) and (b), the Redevelopment Agency must adopt a plan for the use of 20% Funds to comply with the proportionality requirements as specified in Section 33334.4. This section of the Implementation Plan will serve as the required “compliance plan” which shall ensure that these requirements, as specified, are met every ten years. This Implementation Plan includes a report on compliance for the initial ten-year period, January 1, 2005 to December 30, 2014.

In preparation for this analysis, the following assumptions were made:

- Affordable housing projects that received funding prior to January 1, 2005 are excluded. Any additional expenditure made for these projects during the specified time period are not included in the compliance report.
- Expenditures made from the 20% Fund used on administration and for any debt service are also excluded from this analysis. However, bond proceeds would be included in this section, but the Agency’s 20% Housing Setaside fund currently does not have any outstanding bonded indebtedness.

⁴ The 1,600 units include substantially rehabilitated units.

⁵ Anticipates losing some BMR units in foreclosure.

1. Proportionality Compliance for Targeted Income Levels

Section 33334.4 specifies that the goals for compliance with this section be taken from the Association of Bay Area Governments (ABAG) need figures for 2007-2014 for Santa Clara County, as included in the Morgan Hill Housing Element. The following table summarizes this information from ABAG:

	VLI	LI	MOD	ABOVE MOD	Total Units
Number	317	249	246	500	1,312
Percentage	24%	19%	19%	38%	100%

It should be noted that the Agency cannot assist above moderate income units with 20% funds. The percentage for each category is based on the total number of units allocated by ABAG.

Compliance for January 1, 2005 to December 31, 2014

The Redevelopment Agency has met and will continue to meet its proportionality requirements for targeted income levels. The 20% funds have been expended and are estimated to be spent in the following proportions over the ten year period: 20% moderate-income, 30% low-income and 50% very low-income. These goals result in the targeting of funds to deeper affordability levels than reflected by the ABAG needs assessment.

2. Proportionality Compliance for Age-Restricted Housing Units

The senior population in Morgan Hill is 8%. Based on this information, the Agency must spend no more than 8% of the funds from the 20% Funds on age-restricted affordable housing units.

Compliance for January 1, 2005 to December 31, 2014

The Redevelopment Agency will meet its proportionality requirements for expenditures on age-restricted affordable housing units. The Agency can commit up to 8% (\$5,900,000) of its total funds over the ten year period (estimated at \$73,700,000) on age-restricted affordable housing units.

XI. HOUSING SET-ASIDE FUND ACCOMPLISHMENTS AND PROJECTIONS

As mentioned above, CCRL requires that not less than 20% of all tax increment generated by a Project Area is used for the purpose of increasing, preserving or improving the community's supply of affordable housing. The Agency's obligations to assist in the

development of affordable housing differ from its Housing Production obligations.

This Section provides information on the amount of Housing Set-Aside funds anticipated to be collected and spent on affordable housing activities during the Plan period.

A. Housing Set Aside Funds Received (2005-2009)

From 2005-2009, the Agency collected a total of \$34,600,000 for its Housing Set Aside Fund. This amount includes interest, loan proceeds from repayments, and grant/loans received from state and federal resources (e.g., CALHelp funds). The following Table shows the funding received annually from 2005 to 2009.

Annual Available Housing Set-Aside Funds (2005-2009)

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Total</u>
\$5,300,000	\$6,200,000	\$5,400,000	\$9,100,000	\$9,600,000	\$34,600,000

Of the \$34,600,000 the Agency spent about \$35,600,000 over the five year period. The difference was covered by spending down housing fund reserves.

B. Housing Set Aside Projections (2010-2014)

The following table shows the Housing Set Aside funds the Agency anticipates collecting for each of the five years from 2010-2014.

Annual Anticipated Housing Set-Aside Funds (2010-2014)

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
\$5,500,000	\$4,740,000	\$5,190,000	\$5,840,000	\$8,630,000	\$29,900,000

The following table estimates the annual expenditures over the next five years:

Projected Annual 20% Housing Set-Aside Expenditures (2010-2014)

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
\$9,120,000	\$5,060,000	\$5,050,000	\$5,990,000	\$8,700,000	\$33,920,000

It should be noted that the 2006 Plan Amendment deleted a portion of the Project Area which has resulted in less TI being generated for affordable housing activities during this Plan period. The difference between projected revenues and expenses would be funded from available housing reserves accumulated over time. As of August 2009, the Housing Set Aside fund has \$7,200,000 in its fund balance. The projected expenditures include the \$6,600,000 the Agency will borrow from the Housing Setaside fund to pay for a portion of the \$10,900,000 the Agency must pay the State for ERAF in FY09-10 and FY10-11. The Agency will repay the funds during the next five year period (2015-2019).

In addition to funding programs and projects, the above estimates also include

administrative costs for Agency housing programs and projects including the BMR program, contracts with non-profit agencies for such services as landlord/tenant assistance and shelters for battered women (and their children), and administration of the City's Senior Housing Trust Fund, Housing Mitigation Funds and the Community Development Block Grant Program.

C. Projected Units to be Assisted (2010-2014)

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Total</u>
113 units	114 units	15 units	15 units	55 units	312 units

As shown in the AP table in Section X B. The Agency anticipates it will assist 312 households. Of the 312 units, 173 are VLI households and 139 are LMI households.

XII. HOW THE AFFORDABLE HOUSING GOALS AND OBJECTIVES, PROGRAMS, PROJECTS AND EXPENDITURES WILL ELIMINATE BLIGHT IN THE PROJECT AREA

The Agency's Affordable Housing goals and objectives together with the proposed programs, projects, and expenditures over the next five years, will help eliminate blight in the Project Area. Blight includes residential deterioration, impaired investment, and physical constraints to economic viability resulting in an inadequate housing stock.

XIII. PROJECT AREA HOUSING BEYOND 2014

CCRL requires Agencies to address the Project Area's housing needs beyond the next five year period, beginning January 1, 2015. Specifically, comments regarding the next ten years (2015-2025) and the life of the Redevelopment Plan are requested.

The 2006 Plan Amendment extended the Plan's effectiveness date to 2024. Assuming that the existing residential development control system remains in place thru FY23-24, per Section XI of this Plan, we can assume about 250 units per year would be developed within the City. Of the 250 units per year, about 50% can be reasonably expected to be constructed within the Project Area. From 2015-2024, about 1,250 units (2,500 total units x 50%) would be produced in the Project Area. Of the 1,250 units, 188 units would need to be affordable, restricted units: 75 VLI units and 113 LMI units. However, the Plan projects a housing credit balance of 417 VLI and 393 LMI by December 31, 2014. As a result, the Agency's existing credit balance far exceeds the projected production requirements for the estimated life of the redevelopment plan.

With respect to funding, the Agency anticipates that no surplus housing funds will be available when the Agency reaches the end of its effective life.

XIV. PLANS FOR USING ANNUAL DEPOSITS TO THE HOUSING SET-ASIDE FUND

CCRL stipulates that redevelopment agencies cannot accumulate monies in their Housing Set Aside Fund beyond certain legally specified amounts. A condition of “excess/surplus” cannot be created whereby unexpended or unencumbered funds greater than \$1,000,000 or an amount exceeding the last four years of Housing Set-Aside deposits exists. Based on current programs, expenditures and projections, the Agency will NOT have an “excess/surplus” in the next five years.

XV. PROPOSED LOCATIONS FOR THE REPLACEMENT HOUSING THE AGENCY WILL BE REQUIRED TO PRODUCE

Within the next five years, 2010-2014, the Morgan Hill Redevelopment Agency has no plans to remove any units from the existing housing stock except as a component of a replacement housing project or public improvement project such as a street.

In the event that the Agency does remove any housing units, they will be replaced on at least a 1:1 basis as required under redevelopment law, with either new or rehabilitated units within four years of removal. The replacement units will be made available to persons of the same income level as those who occupied the original units before they were destroyed. The Agency will also impose recorded covenants on the replacement units regarding their long-term affordability in accordance with redevelopment law.

XVI. COMPLIANCE WITH THE CITY’S GENERAL PLAN HOUSING ELEMENT

The goals and projections outlined in this Implementation Plan conform to the City of Morgan Hill’s General Plan Housing Element.